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Report Highlights: Canadian broiler chicken production is expected to increase by almost 2.0% in 2002 and reach a record 945,000 metric tons. Production prospects for 2003 indicate another year-to-year increase of about 2-3%. During 2001, the value of U.S. poultry meat exports to Canada reached a record \$263 million. Canada has recently recognized the poultry meat inspection system of Brazil, a development that provides the potential for cheap Brazilian chicken to displace U.S. chicken in the Canadian market.

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Executive Summary:

* Canadian broiler chicken production is expected to increase by about 2.0% in 2002 and reach a record 945,000 metric tons. Production prospects for 2003 indicate another year-to-year increase of about 2-3%.

* The Canadian turkey industry's desire to reduce frozen turkey stocks combined with relatively flat domestic demand is expected to result in lower turkey production in 2002 by 1-2% . A moderate increase in production in 2003 is forecast.

*During 2001, the value of U.S. poultry meat exports to Canada reached a record \$263 million. After Russia, Canada was the second most important export market for U.S. poultry meat exports last year.

*Canada is ready to defend its supply managed poultry industries in WTO negotiations. The federal government has announced that it is committed to preserving the ability of Canadian producers to operate an orderly marketing system for poultry meat and eggs.

*Canada has recently recognized the poultry meat inspection system of Brazil. The development provides the potential for cheap Brazilian chicken to displace U.S. chicken in the Canadian market. Canada considers its import access levels for poultry meat and products to be global access levels and it fully intends to apply any poultry imports from Brazil against the TRQ which up to this point has been filled by U.S. exporters.

Section I. Broiler Chicken

PSD Table						
Country	Canada					
Commodity	Poultry, Meat, Broiler				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	22	22	22	26	24	24
Production	915	927	930	945	0	975
Whole, Imports	3	0	5	0	0	0
Parts, Imports	87	73	90	72	0	75
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	90	73	95	72	0	75
TOTAL SUPPLY	1027	1022	1047	1043	24	1074
Whole, Exports	6	5	7	8	0	7
Parts, Exports	79	70	78	72	0	78
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	85	75	85	80	0	85
Human Consumption	920	921	938	939	0	964
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	920	921	938	939	0	964
TOTAL Use	1005	996	1023	1019	0	1049
Ending Stocks	22	26	24	24	0	25
TOTAL DISTRIBUTION	1027	1022	1047	1043	0	1074

Production Outlook: Canada's national chicken agency reports that Canadian chicken production during the first seven months of 2002 was above last year's level for every month except July when significant heat losses in several provinces reduced output. Year to date production through August 2002 is approximately 2.3% higher than the corresponding period a year ago. However, weaker domestic prices, related to higher domestic stocks and greater world supplies, could result in smaller chicken production allocations for the remainder of the year. On balance, total Canadian chicken production is projected to reach a record 945,000 metric tons in 2002. Demand signals from both the retail and food service sectors point to another annual chicken production increase of about 3% during 2003, taking output close to the 975,000 metric ton level. Tariff Rate Quotas: Chicken

U.S. access to Canada's chicken market is determined by a NAFTA formula of 7.5% of the previous year's Canadian production of chicken as published by Statistics Canada. For 2002, Canada's chicken tariff rate quota (TRQ) is 69,426 metric tons. Imports of U.S. broiler chicken cuts, fresh or frozen above the TRQ, are assessed an over access duty of ranging from 238% to 249%. However, the NAFTA agreement recognizes a supplementary import system which allows additional imports (at zero duty) when Canadian supplies fail to meet market demand.

Marketing

Canadian importers of chicken must be in possession of an import permit issued by the Department of Foreign Affairs and International Trade. Further information on TRQ product coverage and a listing of the import allocation holders is available on the DFAIT website at:
<http://www.dfait-maeci.gc.ca/~eicb/chicken/chicken-e.htm>

Chicken Imports by type

The following table is reproduced from Agriculture and Agri-Food Canada data and shows unofficial Canadian imports of chicken by type for the period January 1 to September 7, 2002. All quantities are in kilograms. All imports are from the United States.

Canadian Chicken Imports, by type (January 1- September 7, 2002)			
	kg		kg
Live (evis. weight)	56,313	Boneless Breasts	8,216,797
Whole Carcass	290,432	Boneless Parts	1,437,728
Bone-In Breasts	13,196,620	Cooked Bone-in	1,890,952
Bone-In Legs	366,419	Cooked Boneless	2,654,520
Bone-In Parts	3,917,804	Others Bone-In	2,767,323
Bone-In Wings	11,947,425	Others Boneless	5,066,076
		TOTAL	51,808,409
Source: AAFC			

Chicken Utilization

The Further Poultry Processors Association of Canada, the organization representing manufacturers of value-added poultry products, estimates Canadian chicken utilization shares by sector for 2001 as: retail, 65%; fast food, 22%; other restaurants and taverns, 8%, and hotels and institutions, 5%.

Section II. Policy

WTO Position

Canada is ready to defend its supply managed poultry industries in WTO negotiations. The federal government has announced that it is committed to preserving the ability of Canadian producers to operate orderly marketing systems (i.e., supply management) for poultry meat and eggs.

Chicken Industry Structure

The Chicken Farmers of Canada (CFC) is the national agency which is responsible for the orderly marketing of chicken in Canada. CFC was established in 1978 under the *Farm Products Agencies Act* through an agreement of the federal government, provincial agriculture ministers and chicken producers in member provinces. The CFC's Board of Directors is comprised of representatives and producers from the provincial chicken marketing boards, two processors chosen by the Canadian Poultry and Egg Processors' Council to represent the interests of primary processors, one further processor chosen by the Further Poultry Processors Association of Canada to represent the interests of independent further processors and one restaurateur chosen by the Canadian Restaurant and Foodservice Association to represent the interests of the foodservice industry. The CFC has the authority to regulate chicken production in Canada under a system of supply management. CFC is funded entirely through a levy paid by producers based on the amount of chicken marketed.

Chicken production is regulated by CFC, under two national agreements; the National Allocation Agreement (NAA) and the Export Policy. The NAA establishes the basis upon which provincial allocation is determined and allocated. The national allocation is established on a rolling 8-week cycle such that there are roughly six allocation periods per year. The basic premise of the NAA is that it is a bottom-up approach whereby individual processors determine their market needs and filter their requirements upward through the system to establish the national allocation. In some provinces, processor requirements are sent directly to provincial boards, while in others, processor requirements are provided to the provincial board via a provincial processor association.

Export Policy: The CFC established an export policy so that processors within a province could take advantage of the export market using an additional allocation of quota so that they would not be compromising their domestic market needs. The CFC Export Policy is an "umbrella" policy which establishes the parameters under which provincial export policies must operate. The basic premises of the Export Policy are: quota allocation for export is limited to 8% of a provinces' domestic allocation; processors must sign a commitment that an amount equivalent to their export allocation will be exported; a volume equivalent to the export allocation must be exported or the volume remaining on the domestic market is subject to a fine (per kg).

Section III. Turkey

High beginning stocks in 2002 and relatively flat domestic demand are expected to result in lower turkey production in 2002. A moderate increase in production in 2003 is forecast bringing Canadian turkey output back to a level equal to its 2000 production mark.

PSD Table						
Country	Canada					
Commodity	Poultry, Meat, Turkey				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	14	14	12	19	9	15
Production	145	149	146	147	0	152
Whole, Imports	5	0	6	0	0	0
Parts, Imports	3	5	3	6	0	6
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	8	5	9	6	0	6
TOTAL SUPPLY	167	168	167	172	9	173
Whole, Exports	2	0	2	0	0	0
Parts, Exports	22	14	23	14	0	15
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	24	14	25	14	0	15
Human Consumption	131	135	133	143	0	146
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	131	135	133	143	0	146
TOTAL Use	155	149	158	157	0	161
Ending Stocks	12	19	9	15	0	12
TOTAL DISTRIBUTION	167	168	167	172	0	173

Turkey Tariff Rate Quota

Similar to chicken, U.S. access to Canada's turkey market is determined by a NAFTA formula (3.5% of the targeted turkey production announced by the Canadian Turkey Marketing Agency). For 2002, the turkey TRQ is 5,583 metric tons. For turkey meat, the over access tariff rates for 2002 range between 154.5% and 165% but supplementary imports at zero duty are allowed under certain supply circumstances.

Canadian importers of turkey must be in possession of an import permit issued by the Department of Foreign Affairs and International Trade. Further information on TRQ product coverage and a listing of the import allocation holders is available on the DFAIT website at:

<http://www.dfait-maeci.gc.ca/~eicb/turkey/turkey-e.htm>

Section IV. Poultry Industry Developments

Canada Recognizes Brazilian Poultry Meat Inspection

Effective August 1, 2002 Canada recognized the poultry meat inspection system of Brazil (see CA2088) and as a result, poultry meat from Newcastle disease-free States in Brazil will be eligible to enter Canada. The development provides the potential for cheap Brazilian chicken to displace U.S. chicken in the Canadian market.

Traditionally, because of the mutual recognition of health standards and inspections systems with Canada, the United States has been virtually the sole supplier of imported poultry meat to Canada. However, the Department of Foreign Affairs and International Trade (DFAIT) claims it has always considered its import access levels for poultry meat and products to be global access levels and it fully intends to apply any poultry imports from Brazil against the TRQ which up to this point has been filled by U.S. exporters. The DFAIT claims that Taiwan has been eligible to ship certain cooked poultry under the TRQ for the past several years and any imports during that time, although relatively insignificant, were counted against the TRQ.

Within Access Tariff Rates: Brazilian poultry meat exports to Canada are subject to a Most Favored Nation tariff rate of 5% ad valorem, not less than 4.74 Canadian cents per kilogram or more than 9.48 Canadian cents per kilogram. Under NAFTA, U.S. poultry exports to Canada enter duty free.

Over Access Tariff Rates: Once imports exceed the TRQ, Canada assesses duty rates of between 238%-249% on poultry meat from all sources including the United States.

The Brazilian poultry industry reportedly believes it can export up to 25,000 metric tons of chicken to Canada annually which, if realized, would utilize more than one-third of Canada's chicken TRQ. According to industry contacts in Canada, only Canadian importers who can handle and store frozen chicken are expected to import Brazilian chicken. Speculation is that chicken imports from Brazil would be comprised of frozen white meat products.

WTO Dairy Dispute: Possible Impact on Canadian Poultry Exports

Canada announced it will appeal the June 24, 2002 World Trade Organization (WTO) Compliance Panel decision on dairy that Canada's approach to commercial export milk transactions is not WTO-compliant. This is the second time that the WTO has ruled against Canada in the dispute. Canada's supply managed poultry industries are watching the case closely. The outcome could set the rules for the two-price export schemes of supply managed commodities and impact future Canadian poultry trade.

Russia Confirms Canadian Poultry Meat Export Certification

Following a visit to Russia in September 2002, federal agriculture minister Lyle Vanclief announced Russian acceptance of Canada's recommended list of pork exporting facilities, and confirmation of export certification requirements for Canadian pork, poultry meat and seafood. "Russian acceptance of our recommendation is a clear indication of its confidence in Canada's health standards and food safety systems," said Vanclief. Russia is Canada's fourth largest poultry export market.

Lower Exports to Cuba

Canada's chicken exports to Cuba fell sharply in the first six months of 2002, down almost 40% from last year's pace when Canada exported 16,764 metric tons of chicken to the Caribbean country. The Chicken Farmer's of Canada blames the decline on competition from U.S. poultry exports following the enactment of certain exceptions from U.S. sanctions legislation for U.S. agricultural and medical exports to Cuba. However, much of the decline in Canadian chicken exports to Cuba in the first six months of 2002, was offset by increased exports of Canadian chicken to Russia and to the United States. For further information on U.S. trade restrictions to Cuba, see the FAS website at: <http://www.fas.usda.gov/itp/cuba/cuba.html>

Chicken Allocation Controversy

For years, Canada's chicken industry has suffered due to the market-response lag inherent to most supply managed systems. In Ontario, the country's largest chicken market, chicken processing organizations, including primary processors, independent processors, further processors, and also the Canadian Foodservice and Restaurant Association continue to argue over how much chicken their members can use and at what price. The Ontario Farm Products Marketing Council, a provincial overseer of farms boards and agencies in that province, is studying new methods and regulations to govern price and quantity formulas for the different demand sectors. The Ontario chicken board would then seek permission from the national agency, the Chicken Farmers of Canada (CFC), to produce a given amount of chicken. If the CFC approves less production allocation than the Ontario request, supplies would be rationed among processors. (Post Comment: Presumably, this means that less chicken would be produced and sold than under a freer system, but productivity and consumption are often the last points addressed by Canada's supply managed poultry boards and agencies.)

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